

**HOUGHTON LAKE BUILDING AGENCY
ROSCOMMON COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Houghton Lake Building Agency	County Roscommon
Audit Date December 31, 2005	Opinion Date March 2, 2006	Date Accountant Report Submitted To State: March 20, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, and in the accompanying comments and recommendations.

LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

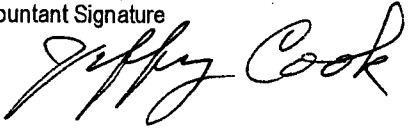
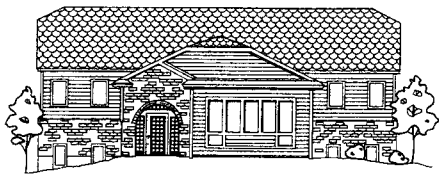
Certified Public Accountant (Firm Name): Keskine, Cook, Miller & Alexander, LLP			
Street Address 100 West First Street	City Gaylord	State MI	ZIP 49735
Accountant Signature 			

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Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.
Jeffrey B. Cook, C.P.A.
Richard W. Miller, C.P.A.
Ronald D. Alexander, C.P.A.
Curt A. Reppuhn, C.P.A.

INDEPENDENT AUDITOR'S REPORT

March 2, 2006

To the Members of the Board
Houghton Lake Building Agency
Roscommon County, Michigan

We have audited the accompanying financial statements of the business-type activity and the major fund of the Houghton Lake Building Agency as of and for the year ended December 31, 2005, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and the major fund information of the Houghton Lake Building Agency as of December 31, 2005, the respective changes in financial position and cash flows, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, on pages 2-3, and the statement of revenues, expenditures, and changes in fund balance – budget and actual – page 13, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Keskin Cook Miller & Alexander LLP
KESKINE, COOK, MILLER & ALEXANDER LLP

HOUGHTON LAKE BUILDING AGENCY

1250 S. HARRISON RD. P.O. BOX 8
HOUGHTON LAKE, MICHIGAN 48629

Telephone (489) 422-3687

HOUGHTON LAKE BUILDING AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2005

This section of the annual financial report of the Houghton Lake Building Agency presents our discussion and analysis of the entity's financial performance during the fiscal year ended December 31, 2005. Please read it in conjunction with the financial statements which immediately follow this section.

Financial Highlights

Our financial status improved over the last year. The change in net assets was \$22,547.

Assets remained constant compared to the prior year.

Overall revenues were \$285,439 consisting entirely of collections from customers. Revenues are up 25% from the prior year, due to the increase in commercial construction. Overall expenses (including depreciation) totaled \$262,892. The cost of the operations increased approximately 3% from the prior year.

Overview of the Financial Statements

This annual report consists of two parts, management discussion and analysis and the basic financial statements. The basic financial statements include three different statements that present different aspects of the Agency, notes to the financial statements, and supplemental information.

The first statement is the Statement of Net Assets which shows the assets and liabilities of the Agency as of December 31, 2005. The second statement is the Statement of Revenues, Expenses, and Changes in Net Assets which shows the revenue, expenses, and change in net assets, or net income, for the year ended December 31, 2005. The third statement is the Statement of Cash Flows summarizes the year's cash activity.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Over time, increases / decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity, you may also have to consider additional factors such as changes in the local economy and the amount of building and repair activity in the area.

The activity of the Agency – the issuance of permits and inspections – is reported as a business-type activity. The Agency has no governmental activities.

The Agency has the following fund:

General Fund – All of the entity's activities are included in this fund category. The fund is presented on the accrual basis, as required for enterprise funds, which is designed to show both short and long-term financial information.

Financial Analysis of the Entity as a Whole

Net Assets – the entity's combined net assets increased during the year ended December 31, 2005 totaling \$65,442.

The primary reason for the increase in net assets was the increase in commercial activity.

Financial Analysis of the Authority's Funds

The activities of the operations and maintenance fund have remained constant, consisting of utility expenses, systems and equipment repairs and maintenance, and capital projects.

Capital Asset and Long-term Debt Activity

Capital Assets – The Agency did not purchase any new capital assets during the year.

Long-term Debt – The Agency has no outstanding long-term financing arrangements. The accrual for long-term sick pay increased by \$1283 totaling \$7066 to reflect the actual balances accrued to each employee as of December 31, 2005.

Known Factors affecting Future Operations

None.

Contacting Entity Management

This financial report is designed to provide taxpayers, creditors, investors and customers with a general overview of the entity's finances and to demonstrate the entity's accountability for the revenues it receives. If you have questions concerning this report please contact Ms. Sherrie Ciaramitaro at 1250 South Harrison Road, Houghton Lake, MI 48629.



Fred Chidester, Chairperson of the Board
April 16, 2006

**HOUGHTON LAKE BUILDING AGENCY
STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

ASSETS

Current assets:

Cash	\$ 47,566
Investments	23,715
Accounts receivable	3,566
	<hr/>
Total current assets	74,847

Noncurrent assets:

Capital assets	3,050
	<hr/>
Total assets	77,897

LIABILITIES

Current liabilities:

Accrued liabilities	5,389
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Noncurrent liabilities:

Sick pay accrual	7,066
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Total Liabilities	<hr/> 12,455 <hr/>
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NET ASSETS

Investment in capital assets	3,050
Unrestricted	62,392
	<hr/>
Total net assets	\$ 65,442 <hr/> <hr/>

See accompanying notes to financial statements.

**HOUGHTON LAKE BUILDING AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2005**

OPERATING REVENUE	
Plumbing permits	\$ 28,911
Electrical permits	66,778
Mechanical permits	45,152
Building permits	139,213
Miscellaneous	5,385
	<hr/>
Total operating revenue	285,439
OPERATING EXPENSES	
Inspector services	98,797
Clerical wages	37,376
Building inspector wages	44,141
Payroll taxes	6,138
Health insurance	30,409
Retirement	8,023
Board members	3,300
Office supplies	2,282
Professional services	637
Rent	7,200
Mileage reimbursement	6,307
Postage and printing	1,548
Insurance	7,401
Telephone and internet	5,017
Depreciation	218
Miscellaenous	4,098
	<hr/>
Total operating expenses	262,892
	<hr/>
Change in net assets	22,547
Net Assets - January 1, 2005	42,895
	<hr/>
Net Assets - December 31, 2005	<u><u>\$ 65,442</u></u>

See accompanying notes to financial statements.

**HOUGHTON LAKE BUILDING AGENCY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2005**

Cash Flows from Operating Activities

Cash received from customers	\$ 283,519
Cash payments to vendors for goods and services	(182,465)
Cash payments to employees for services rendered	(81,517)
	<hr/>
Net cash provided by operating activities	19,537
Cash and cash equivalents - January 1	28,029
	<hr/>
Cash and cash equivalents - December 31	<u><u>\$ 47,566</u></u>

**Reconciliation of Change in Net Assets to Net Cash Provided
by Operating Activities:**

Change in net assets	22,547
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	218
Changes in assets and liabilities:	
Accounts receivable	(1,920)
Accrued liabilities	(2,591)
Sick pay accrual	1,283
	<hr/>
Net cash provided by operating activities	<u><u>\$ 19,537</u></u>

See accompanying notes to financial statements.

**HOUGHTON LAKE BUILDING AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 1: ENTITY

The Houghton Lake Building Agency was created in 1974 under section 9 of Act 230 of 1972 and is a "Township Joint Enforcing Agency". The participating Townships are Roscommon, Backus, Denton, Lake, and Markey, all located within Roscommon County. Each Township passed an ordinance to adopt this Agency as its plumbing, mechanical, electrical, and building permit and inspection agency.

The act and ordinance give the Agency the authority to discharge the permit and inspection duties, which include the issuance of permits, collection of fees, and performance of inspections.

Separate financial statements of each participating township are located as follows:

Roscommon Township
P.O. Box 610
Houghton Lake, MI 48629

Backus Township
2360 S. Maple Valley Rd.
St. Helen, MI 48656

Denton Township
2565 S. Gladwin Rd.
Prudenville, MI 48651

Lake Township
11786 West Shore Drive
Houghton Lake, MI 48629

Markey Township
4974 E. Houghton Lake Dr.
Houghton Lake, MI 48629

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Houghton Lake Building Agency are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures, of the Agency's financial activities for the fiscal year ended December 31, 2005.

The accounting policies of the Agency conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

**HOUGHTON LAKE BUILDING AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FUND TYPES AND MAJOR FUNDS

Enterprise Fund

The Authority reports the following major enterprise fund:

General Fund - This is the general operating fund of the Agency. It is used to account for all financial resources related the issuance of permits and inspections, which is the only current activity of the Agency.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

Government-Wide and Fund Financial Statements

As the Agency has only one enterprise fund, it qualifies under Governmental Accounting Standards Board No. 34's definition of a Special Purpose Entity. As such, only one set of financial statements, which are reported using the economic resources measurement focus and the accrual basis of accounting, is presented since the government-wide and fund financial statements for a business-type activity are the same. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

ACCOUNTS RECEIVABLE

Accounts receivable are recorded for permits that are ready to be issued upon payment. All receivables are considered fully collectible and no allowance for doubtful accounts is recorded.

CAPITAL ASSETS AND DEPRECIATION

The Agency's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Agency has no infrastructure assets. Donated assets are stated at fair value on the date donated. The Agency generally capitalizes assets with historical cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line

**HOUGHTON LAKE BUILDING AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND DEPRECIATION (CONTINUED)

method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Computer Equipment	5 – 7
Office Furniture	10 – 20

For information describing capital assets, see Note 4.

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

BUDGETS

The budget is prepared and submitted to the participating townships for approval. The budget is normally prepared in the beginning of each year. Amendments are made to the budget as required during the year. During the year ended December 31, 2005, the Agency experienced no overexpenditures.

NOTE 3: CASH AND INVESTMENTS

All cash and investments are maintained in financial institutions in the Houghton Lake, Michigan area and are stated at cost, which approximates fair market value. Investments consist of certificates of deposit with original maturities in excess of 90 days. All cash deposits are maintained in accounts as approved by State Statutes.

The Agency's deposits are categorized to give an indication of the level of risk assumed by the Agency at fiscal year-end. The categories are described as follows:

- Category 1 – Insured or collateralized with securities held by the Agency or by its agent in the Agency's name.
- Category 2 – Collateralized with securities held by the pledging Financial institution's trust department or agent in the Agency's name.
- Category 3 – Uncollateralized.

**HOUGHTON LAKE BUILDING AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Bank Balance	1	Category 2	3	Carrying Amount
\$ 46,500	\$ 46,500	\$ -	\$ -	\$ 47,566

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Agency's investments are as follows:

- (1) Insured or securities held by the Agency or the agent in the Agency's name.
- (2) Uninsured with securities held by the counter party's trust department or its agent in the Agency's name.
- (3) Uninsured with securities held by the counter party's trust department or agent but not in the Agency's name.

Balances at December 31, 2005 consist of the following:

	1	Category 2	3	Carrying Amount
CD's	\$ -	\$ 23,715	\$ -	\$ 23,715

NOTE 4: CAPITAL ASSETS

The Agency's capital assets as of December 31, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Disposals	Balance End of Year
Capital assets being depreciated:				
Office furniture	\$ 5,914	\$ -	\$ -	\$ 5,914
Computer equipment	4,358	-	-	4,358
Subtotal	10,272	-	-	10,272
Accumulated depreciation:				
Office furniture	5,914	-	-	5,914
Computer equipment	1,090	218	-	1,308
Subtotal	7,004	218	-	7,222
Net capital assets	\$ 3,268	\$ (218)	\$ -	\$ 3,050

**HOUGHTON LAKE BUILDING AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005**

NOTE 5: RENT

The Houghton Lake Sewer Authority owns the building that houses the offices of the Building Agency. The Building Agency, under a year-to-year oral operating leasing agreement, paid rent expense of \$600 a month to the Sewer Authority in 2005.

NOTE 6: PENSION PLAN

The Houghton Lake Building Agency employees participate in the Houghton Lake Sewer Authority Pension Plan, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amounts of benefits the individual is to receive. Under the Agency's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

Upon the date of hire, all full time and permanent part-time employees are eligible to participate in the plan. Contributions are made by the Agency and vest immediately. The participant will receive benefits at age 55 or the tenth anniversary of the date the participant commenced participation of the plan if later. There is no provision for early retirement.

The plan requires the Agency to contribute 10% of the eligible employees wages. During the year, the Agency contributed \$8,023 to the plan.

No pension provision changes occurred during the year that affected the required contributions to be made by the Agency or its employees.

NOTE 7: INSURANCE

The Agency is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters. The Agency participates in the Michigan Municipal Liability and Property Pool, a self-insured group. The pool is considered a public entity risk pool. The Agency pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expense for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance. The Agency has not been informed of any special assessments

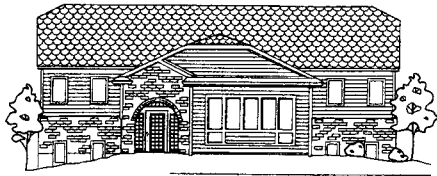
HOUGHTON LAKE BUILDING AGENCY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 7: INSURANCE (CONTINUED)

being required. There were no significant changes in coverage, nor were there any significant claims for the year.

HOUGHTON LAKE BUILDING AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2005

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FROM FINAL AMENDED BUDGET
REVENUES				
Plumbing Permits	\$ 30,930	\$ 30,930	\$ 28,911	\$ (2,019)
Electrical Permits	68,213	68,213	66,778	(1,435)
Mechanical Permits	45,571	45,571	45,152	(419)
Building Permits	139,574	139,574	139,213	(361)
Miscellaneous	-	-	5,385	5,385
Total Revenues	284,288	284,288	285,439	1,151
EXPENSES				
Inspector services	95,777	95,777	98,797	(3,020)
Clerical wages	36,960	36,960	37,376	(416)
Building inspector wages	44,603	44,603	44,141	462
Payroll taxes	6,164	6,164	6,138	26
Health insurance	31,662	31,662	30,409	1,253
Retirement	8,057	8,057	8,023	34
Board members	3,300	3,300	3,300	-
Office supplies	1,700	1,700	2,282	(582)
Education and training	1,000	1,000	-	1,000
Professional services	500	500	637	(137)
Rent	7,200	7,200	7,200	-
Mileage reimbursement	5,600	5,600	6,307	(707)
Postage and printing	1,100	1,100	1,548	(448)
Insurance	6,900	6,900	7,401	(501)
Telephone and internet	4,056	4,056	5,017	(961)
Depreciation	-	-	218	(218)
Miscellaenous	2,550	2,550	4,098	(1,548)
Contingency	27,159	27,159	-	27,159
Total Expenses	284,288	284,288	262,892	21,396
Change in Fund Net Assets	-	-	22,547	22,547
Net Assets - January 1, 2005	42,895	42,895	42,895	-
Net Assets - December 31, 2005	\$ 42,895	\$ 42,895	\$ 65,442	\$ 22,547



Keskin, Cook, Miller & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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Curt A. Reppuhn, C.P.A.

March 2, 2006

Houghton Lake Building Agency
Roscommon County

We have audited the financial statements of Houghton Lake Building Agency for the year ended December 31, 2005, and have issued our report thereon dated March 2, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 17, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Houghton Lake Building Agency. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Houghton Lake Building Agency are described in the notes to the financial statements.

We noted no transactions entered into by the Agency during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached page summarizes the adjustments that were proposed to management and made to the audited financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

The Houghton Lake Building Agency's accounting records were well organized and we are happy to report that there were no difficulties in performing the audit.

Comments and Recommendations

In planning and performing our audit of the financial statements of Houghton Lake Building Agency, we considered the Agency's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit procedures, we became aware of certain matters that represent opportunities for strengthening internal controls and operating efficiency. The following comment and recommendation should be implemented to the extent possible in order to strengthen internal controls and operating efficiency.

- Bank reconciliations are completed timely and accurately; however, nobody currently reviews the reconciliation. The primary purpose of the bank reconciliation is to help in the safeguarding of cash. A monthly review of the reconciliation by another employee or Board member ensures that cash is being safeguarded to the extent possible. We recommend that another employee or Board member review the bank reconciliations on a monthly basis.
- Mileage reimbursement is currently paid to the building official since he is an employee who incurs mileage on his personal vehicle for Agency business. There is not currently a mileage log being maintained that details the amount of mileage that is being reimbursed. Instead, monthly mileage totals are either verbally communicated to accounting or submitted for reimbursement on a scrap piece of paper with no supporting documentation. We recommend that the Agency implement a mileage log policy in which any employee

Comments and Recommendations (Continued)

receiving mileage reimbursement be required to keep and submit a simple daily mileage log that shows beginning and ending odometer readings to substantiate the total mileage being reimbursed.

Other comments and recommendations:

- There is currently not an accounting policy determining the Agency's capitalization limit. We recommend that the Agency's Board adopt a capitalization policy detailing the threshold for which fixed asset are recorded as opposed to expending large acquisitions.
- The Agency's employees were unable to locate page #1 of the Agency's credit card policy during our fieldwork. If there is not a copy of the current credit card policy easily accessible, we recommend that the Board adopt a new credit card policy. In addition, we recommend that the available credit limit on the Agency's credit card be compared to the authorized credit limit included in your credit card policy. If a discrepancy exists, we recommend that you contact your credit card company to request a reduction in available credit limits.
- The Agency's investment policy, adopted October 15, 2002, mandates that monthly reports be furnished to the Board showing the amount of the investments, the yield, and the maturity. The monthly report currently presented to the Board includes the total investments, but does not include yields or maturities. We recommend that the monthly reports prepared for the Board be modified to comply with the Agency's investment policy or that the policy be changed.

We hope you find the above comments and recommendations useful. We are available to assist you in implementing these items should the need arise.

This information is intended solely for the information of the Houghton Lake Building Agency's Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Keskine Cook Miller & Alexander LLP". The signature is written in dark ink and is positioned above the printed name of the firm.

Keskine, Cook, Miller & Alexander LLP

Adjusting Journal Entries
Houghton Lake Building Agency
December 31, 2005

AJE No.	Account Description	W/P Ref	Account Number	Debits	Credits
1	Miscellaneous	A-4	101-101-956		389.00
To adjust beginning trial balance to balance to \$0 - plug to misc exp					
2	Accounts Receivable	E-1.2	101-000-020	1,920.00	
2	Building - Agency		101-000-520		1,920.00
To record A/R for current year					
3	Plumbing Withheld	M-1	101-000-220	1,182.75	
3	Electrical Withheld		101-000-221	1,031.70	
3	Mechanical Withheld		101-000-222		12.35
3	Plumbing		101-101-702		1,182.75
3	Mechanical		101-101-703	12.35	
3	Electrical		101-101-704		1,031.70
To adjust inspector accrued payments to actual at 12/31/05					
4	Accumulated Depreciation	K-1	101-000-150		218.00
4	Depreciation Expense		101-101-960	218.00	
To record depreciation expense for the year ended 12/31/05					
5	Accrued Sick Pay	M-3	101-000-250		1,283.00
5	Clerical Wages		101-101-705	641.50	
5	Building Inspector		101-101-706	641.50	
To adjust accrued sick time to 12/31/05 total					
Totals				<u>5,647.80</u>	<u>6,036.80</u>